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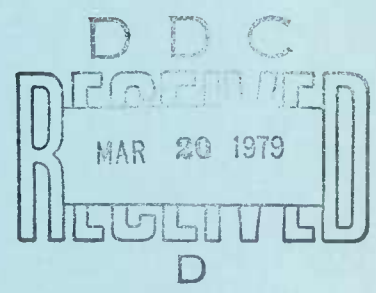
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FINAL

CONTRACT PRICING IMPACT ON
FOREIGN MILITARY SALES CASES CLOSURES

FEBRUARY 1979



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CONTRACT PRICING IMPACT ON
FOREIGN MILITARY SALES CASES CLOSURES

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February 1979

Information and data contained in this document are based on input available at the time of preparation. Because the results may be subject to change, this document should not be construed to represent the official position of the US Army Materiel Development and Readiness Command unless so stated.

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EXECUTIVE SUMMARY

A. BACKGROUND. Foreign Military Sales (FMS) have become one of the most important missions in the US Army Materiel Development and Readiness Command (DARCOM). Dollar transactions have grown to billion dollar proportions, and FMS procurement actions in some procurement activities rival direct Army levels. To achieve economies in procurement administration and purchasing, FMS requirements are often merged with Army requirements in contracts. When Army and FMS requirements are combined within a contract, final pricing for both customers often cannot be done until contract closeout. Experience of FMS managers indicates that many FMS cases are retained in an open status because of delays in negotiation of final contract prices. The delays are unacceptable to both the US Government and the foreign country acquiring the item.

B. OBJECTIVE. Procedures and policies are to be developed which will reduce to acceptable levels the number of FMS case closures being delayed due to lack of finalized prices.

C. METHODOLOGY. The study and research methods employed consisted of a review of existing literature in the FMS areas, interview of officials at Headquarters DARCOM and selected US Army Materiel Readiness Commands (MRC's), and collection and analysis of selected statistical data.

D. CONCLUSIONS. A satisfactory data base does not currently exist to enable a reliable finding of the impact of pricing delay on FMS case closures. The terminology used in FMS matters by Security Assistance (SA), Materiel Management (MM), Comptroller, and Procurement and Production (P&P) personnel is not uniform and presents a semantics problem. A lack of interface between computer systems causes a further lack of communication and precludes a system approach to FMS case management and closure in particular.

E. RECOMMENDATIONS. HQ DARCOM Security Assistance personnel should implement the system change requests (SCR's) set forth in Appendix A of this study which are currently being processed. Subsequent to implementation, personnel of the various directorates should be educated in the usage of the data to facilitate inter-directorate communication. Security assistance personnel should be made aware of the various contract types and trained in contract closeout procedures under Armed Services Procurement Regulation Supplement (ASPS) No. 2. Upon implementation of the SCR's, additional research on wider sample should be conducted to ascertain the impact of pricing and other potential functional delays on FMS case closures.

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CHAPTER I

INTRODUCTION

A. PROBLEM.

Many Foreign Military Sales (FMS) cases must be retained in an open status because of delays in negotiation of final contract prices. These delays range up to five years and preclude settlement of inter-country agreements. Such delays are unacceptable to both the United States Government and the foreign country acquiring the item. It has been alleged that one of the reasons it takes several years to reach final price agreement on these contracts is that Armed Services Procurement Supplement (ASPS) No. 2-305 allows up to 20 months for contract closing on all non Firm Fixed-Price (FFP) contracts. It has been determined that such delays occur most frequently on contracts which require negotiation of the final contract price with the contractor as a required closing action.

B. OBJECTIVE.

Develop procedures and policies which will reduce to acceptable levels the number of FMS case closures being delayed due to lack of finalized prices.

C. SCOPE.

This study will focus on the FMS as it relates to final contract pricing impact on International Logistics (IL) case closures. Primary emphasis will be placed on ascertaining the magnitude of the problem as it relates to all types of production contracts other than FFP. Based upon the initial findings and evaluation of current policies and procedures, it will be determined if opportunities are available to minimize the impact of pricing delay on FMS case closeouts.

D. METHODOLOGY.

1. Determine the number, age and value of open production contracts that are delaying closure of FMS cases because final prices have not been negotiated.

2. Determine the reasons for the delay in final price negotiation.

3. Evaluate current policies and procedures as they impact on FMS case closure.

4. Identify opportunities for reducing the delays which are within the procuring activities' ability to exploit.

5. Develop policies, procedures and management techniques that will keep the number of FMS case closures being delayed because of final price negotiations at acceptable levels.

E. REPORT ORGANIZATION.

The method of presentation is to give an overview of the FMS problem as it relates to this research study in Chapter I. The background discussion on FMS case closures is given in Chapter II, together with a brief discussion of the importance of FMS and past FMS case closure experience.

Chapter III gives an overview of case closure problems at selected US Army Materiel Readiness Commands (MRCs).

Chapter IV deals with the Navy's approach to closing FMS cases.

Chapter V contains an evaluation of International Logistics Data Base interface as it is a part of the Commodity Command Standard System (CCSS) at Automated Logistics Management Systems Activity (ALMSA) in St. Louis, MO. The conclusions and recommendations resulting from this research study are presented in Chapters VI and VII respectively.

CHAPTER II

BACKGROUND DISCUSSION ON FMS CASE CLOSURES

A. INTRODUCTION.

As stated in US Army Materiel Development and Readiness Command (DARCOM) Pamphlet 360-1, one of DARCOM's basic missions is "to provide managerial and related service support to US and foreign customers. For example, DARCOM supports US forces engaged in contingency operations, as well as foreign customers under various international logistical agreements" (16). The main type of international logistical agreement used by DARCOM is FMS. The International Security Assistance and Arms Export Control Act of 1976 requires all sales for major items over \$7 million or with a total program value of \$25 million to be FMS (1, p.7).

B. SIGNIFICANCE OF FMS.

The role FMS plays is a very important one to the US and to the preservation of world peace. Some of the most important tangible benefits of FMS to the US and Department of Defense (DOD) are an offset against an unfavorable balance of payments, an aid to help assure stability in the Middle East, thereby maintaining an oil flow to prevent an energy crisis, profits to US firms, millions of jobs in government and industry, and a reduction in the overall costs of arms to both the US and our foreign customer which is partially attributed to the learning curve effect and economies of scale for a larger production run. For example a recent study found budgetary cost savings of \$560 million annually which is attributable to our \$8 billion FMS sales program (2,p.i).

FMS in DARCOM have grown over the last few years and rose to over one billion dollars in FY 78. In one of DARCOM's MRC's, FMS accounts for about 70 percent of the procurement program (15, p. i). This means that a significant percentage of the command's procurement workforce is needed to satisfy FMS requirements. During the last few years, the dollar amounts of FMS have dramatically increased to the point where it has been hard to keep complete control over them. As a consequence, it has created a myriad of FMS problems. Recent US Army Audit Agency (AAA) reports show that many physically completed FMS cases did not indicate whether final billings had been made. Most of the cases had no activity on them in the last few months (16, pp. ii & 14). Additionally, many of the FMS customers were billed on estimated prices rather than actual costs (16, p. 16 & 4, pp. 2 & 3). One might conclude from these AAA reports that there seems to be a lack of management emphasis on closing FMS cases on an actual cost basis in a timely manner.

In the previous paragraph, the lack of management emphasis on closing cases in a timely manner was noted. In a recent Navy report on FMS lessons learned, the same problem was identified: FMS cases are materially complete (material delivered) but financially open. A great number of these cases date back several years (12). However, a recent draft revision to the Field Manual on International Logistics Management stated that "when records indicate that all shipments have been made and all discrepancy reports are resolved, the case is eligible for closure. Within 45 days after the action on the case, SACC is notified the case

is eligible for closeout, and final transactions should be made with the country" (7, p. 66). Reports and other evidence examined in this research reveals a lack of emphasis and understanding concerning the details of how to close an FMS case. The Navy and Army both are now working on improved guidance/training on FMS case closure.

The Navy FMS Manual states that "the final action in successfully completing a US sponsored FMS case is the case closure or closeout. As the term 'closeout' implies, the FMS closeout begins when all material, services and conditions expressed in the DD Form 1513 and amendments thereto have been filled. Case fulfillment includes filling of all supply requisitions required to meet case requirements with all deliveries documented and all billings remitted" (3, p. 5-1). The one thing the Navy is promoting in its manual is that a closeout plan needs to be established by the Acquisition Manager upon receipt of the "Letter of Implementation" (3, pp. 5-4 & 5-7).

The Army's closeout program applies to "all open FMS cases that exceed or will exceed the expiration/commitment date as established by the DD Form 1513, Letter of Acceptance, before 1 July of the program year" (6, p. 8-1). The objective of the Army program is to close the maximum number of cases within the shortest time frame through intensive management and operating practices. This is the objective to which this research is designed to contribute.

Currently, the "piece-meal" management of FMS cases allows for the possibility of system elements to be delayed (11); therefore a systems

approach to FMS cases is needed. Throughout the review of literature on case closure there has been little evidence of management emphasis in the past to close FMS cases. In addition, there has been very little research done and guidance in this critical area to date.

One might hypothesize that direct FMS sales would take the government out of the arena of managing FMS and allow for cases to be closed in a more timely manner. But, Congress has passed the International Security Assistance and Arms Control Act of 1976 which tends to discourage direct sales (1, p. 6), and thereby reduces this opportunity for alleviation of case closure problem.

The direct approach is wanting when something deviates from the expected. The success of a direct venture is highly dependent on how well the program is defined and understood by both parties. Unfortunately the ledger is full of cases where the undertaking was neither detailed or comprehended. Unhappy customers and expelled, unpaid contractors often drag the US government into a mess after the fact to protect political and national interests.

The FMS procurement mode reduces many uncertainties. The FMS system made the US a prime contractor and a guarantor to both parties. The customer makes its agreement with the US. The US service department then implements the program by placing a contract and imposing our normal acquisition policies and controls. Collecting from the customer becomes a government to government obligation.

The major disadvantage of FMS is the requirement for large numbers of military and government civilian personnel to administer, implement, and provide continuing long term support for the cases (1, pp. 6 & 7).

If the US is to fulfill its FMS commitments which in turn would help contribute to the balance of payments, we must be able to satisfy our foreign customers in a more responsive manner.

C. DATA BASE TO DETERMINE MAGNITUDE OF PRICING IMPACT ON CASE CLOSURE.

An effective way to determine the magnitude of pricing delay on FMS case closures is to sample the overage contracts in the FMS data base. Prior to sampling contracts, an understanding of contract type and close-out time allowance and reasons for overage status is essential.

1. Contract types. To provide the flexibility needed in the acquisition of the large variety and volume of military supplies and services, a wide selection of types of contracts is available to the contracting parties. The type of contract which is selected for a specific acquisition will have a direct bearing on the pricing structure of the deliverable items and the subsequent availability of final prices for closure action on FMS cases. A listing of the types of contracts, their characteristics, and effects on FMS case closure is contained in Appendix B of this report.

2. Standard time for contract closing. Armed Services Procurement Regulation Supplement (ASPS) No.2, paragraph S2-305(a) provides the following standard times allowed for closing physically completed contracts: fixed price unilateral purchase orders, 3 months; firm fixed price (excluding those mentioned above), 6 months; and all other contracts 20 calendar months after the month in which physically completed. There are a number of reasons why a particular contract might not be closed

within the allowable time frame. The scope of this effort is confined to pricing delays, yet there is a need to recognize the fact that pricing delay is not the sole cause of overage contracts.

3. Reasons for overage status (not closed within ASPS No. 2 standard time allowed. DOD Manual Military Standard Contract Administration Procedures (MILSCAP) 4105.63-M appendix A38, establishes 22 reason codes in explanation of the delay in closing a physically completed contract. The reasons which direct or indirectly pertain to pricing delays include the following:

- a. Contractor has not submitted final invoice/voucher.
- b. Contractor has not submitted proposal for final price redetermination.
- c. Supplemental agreement covering final price redetermination required.
- d. Final audits in process.
- e. Disallowed cost pending.
- f. Independent research and development rates pending.
- g. Negotiation of overhead rates pending.
- h. Reconciliation with paying office and contractor being accomplished.
- i. Contract release and assignment pending.
- j. Final acceptance not received.
- k. Settlement of subcontracts pending.
- l. Additional funds requested but not yet received.
- m. ASBCA case.
- n. Public Law 85-804 case.
- o. Litigation/Investigation pending.
- p. Termination in process.

CHAPTER III
ANALYSIS OF FMS CASE CLOSURE PROBLEMS AT SELECTED
MATERIEL READINESS COMMANDS

A. INTRODUCTION.

The purpose of this chapter is to discuss the approach taken in order to determine the number, age and value of open production contracts that are delaying closure of FMS cases because final prices have not been established. Visits and data requests were made to selected Materiel Readiness Commands (MRC's) to sample acquisition contracts and FMS cases to measure the impact of delayed pricing on the closure of FMS cases. In none of the MRC's visited or queried was sufficient data maintained to permit a timely analysis of the factors contributing to tardy FMS case closures. But two of the commands were able to provide enough information to permit a partial analysis. One of these commands has the largest volume and proportion of FMS business of all the MRC's and is therefore likely to experience the full range of problems associated with FMS case closures.

B. FIRST COMMAND DATA BASE.

Data requested from this command, as well as others, was a computer printout of FMS cases identified by country/case number, cross referenced to all of the existing contracts supporting the individual FMS cases. A second printout was requested which would list the contract number and cross reference each FMS case that the contract supported by country/case number.

The printouts requested would have provided a data base representing the entire population of FMS cases and contracts supporting those cases at the command; however, it was soon apparent that there was no capability within the existing management information systems to provide such information.

At the time of the first visit, the only data that was available for use was a manually prepared listing of 18 FMS cases which in turn related to 79 contracts. The data had been generated in the Comptroller Directorate and was extracted from cases which had been recommended for closure processing based on estimated prices. The data was nothing more than an FMS case number with a list of the contracts awarded in support of that case along with the obligated amount and disbursements made. The data was analyzed with the understanding that it could not necessarily be considered representative because of its size in comparison to the population and the manner of its compilation.

Subsequent to this visit, the Comptroller Directorate developed a bridging system which combined data from Army Procurement Appropriation-Management Accounting and Reporting System (APARS) and CCSS. The reports which were provided by the bridging system were of two varieties. The first report listed each country case with all the associated contracts and dollar amounts, and the second report listed each contract containing an FMS requirement and each associated country/case number. The only status contained on either of the reports was the obligated and disbursement amount of the FMS portion of the contract.

C. ANALYSIS OF THE FIRST COMMAND DATA.

1. Analysis of delays. The original list of 18 FMS cases was analyzed to determine the extent of delay in case closure attributable to delay in final pricing action. The analysis disclosed the following four conditions:

a. Several of the cases contained no active contracts. All of the contracts had been shipped complete, paid, closed; and in some cases, retired from the system. FMS cases in this category are being held open through no fault of procurement pricing. In some instances, actual prices were known prior to May 1976, or 24 months before the command recommended closing based on estimated prices.

b. Several of the cases contained active contracts. The contracts involved are either firm fixed price or fixed price with economic price adjustment provisions. The scheduled final delivery dates of the contracts range from December 1978 to March 1979. Since the contracts are not supply complete, and the FMS portion of the contracts represents a small percentage of the total obligated amount, it is questionable if the cases can be closed at this time. If any repricing, or adjustments on the basic contract are required, actual prices will not be known until a later date. If the FMS portion has been delivered, and all required economic price adjustments have been made for the period involved, there is no reason to hold the case open; however, there is always the chance that later claims or litigation could require adjustments to the price since the basic contract is neither supply complete nor closed.

c. Many of the cases required contract support from other MRC's. Since the contracts are not located at this command and the command's Contract

Status Report does not contain data on contracts outside the command, the closing condition of the contracts could not be determined.

d. One FMS case was represented by a single firm fixed price contract which was in overage status because of litigation. The contract had originally been paid and closed in January 1977; however, it was reactivated because of litigation in May 1978. Actual prices were available in 1976 and the command suggested using estimated prices in closing the FMS case in 1978; however, no one outside of the procurement directorate was aware that the contract was in litigation at that time.

2. Problems related to manual analysis. The data provided by the bridging system, described in paragraph B above, provided essentially the same type of information as the manual list except that the printout represented the entire universe of FMS cases and related contracts at the command. Since the printout listed the contracts without delivery status, the delivery status had to be extracted from the CCSS Contract Register. There is no technique currently available within the various systems to sort out the contracts in overage status or supply complete, so the entire contract register of approximately 66,000 contracts had to be manually scanned. The manual technique of checking the several registers proved to be impractical because of the following:

a. The master register of contracts provides funds and delivery status on the entire contract and the status of the FMS portion cannot be determined without reviewing the entire official contract file.

b. It is not uncommon to find FMS cases with 30 to 40 contracts in various stages of completion over a wide range of fiscal years.

c. It is not uncommon to find contracts with numerous different FMS requirements in various stages of completion. One contract selected at random contained requirements on 73 separate FMS cases. Under such circumstances, the type of contract and closing condition code could impact on the closure procedures of a large number of FMS cases.

d. The extent of contract support provided by other MRC's and the impact of that support cannot be determined since those contracts do not appear in the first command's data base.

D. ANALYSIS OF DATA.

As a result of the analysis of data at the command, and discussions with representatives of the IL, Comptroller, and P&P Directorates, the following initial observations were made:

1. A semantics problem was uncovered in that what may be a "delinquent FMS case" to the Security Assistance (SA) people may not be considered delinquent from a procurement point of view. Thus, it was found that "delinquent FMS cases," "supply complete contract," and "overage contract" can mean different things to various directorates.

First, an FMS case is considered to be delinquent once it passes the original scheduled delivery date that was established when the DD Form 1513 is executed. However, there may be one or more contracts on a single FMS case with delivery dates which may or may not coincide with the dates on the DD Form 1513. Therefore, although the delivery date may have passed on the DD Form 1513, one or more procurements (contracts) may not be scheduled for delivery, may have slipped from the original delivery schedule or may be a part of a procurement which has multiple orders. Even if it

has been delivered, the balance of the contract may not be completed or may be completed but not be overage. Thus to procurement personnel, until all contracts on an FMS case become overage they would not consider an FMS case delinquent from a procurement point of view.

If the FMS case manager becomes aware that delivery has been made for a given FMS requirement, he may consider the contract to be supply complete; however, from a procurement point of view no contract is supply complete until all deliverable items have been shipped. Once all deliverable items have been shipped, a contract can no longer be considered delinquent and will not become overage for a stipulated time period depending on a variety of factors which will be discussed in the subsequent paragraphs.

The real problem becomes the Security Assistance personnel use of "delinquent" and "overage" interchangeably and "supply complete" erroneously. As a consequence, Security Assistance personnel do not comprehend why they cannot immediately get actual costs under all conditions in order to be able to bill the FMS customer so as to be able to complete and close their FMS case.

2. The sample of 18 FMS cases indicated no instances of pricing delays precluding case closure.

3. Due to the size and configuration of available data it was not possible to categorically determine whether delayed pricing is a problem.

4. Circumstances of open FMS cases which contain no active contracts give the impression that actual prices are not used when they are available because of a communication void between the various directorates. People speculate about delays in pricing, yet closing action is not always being taken even when actual prices do become available.

5. The interrelationships caused by numerous FMS requirements being placed on a single contract creates a network type effect whereby a change or delay to a contract could impact on a large number of FMS cases. In addition to this effect, a large number of FMS cases could have many contracts in common. No mechanical means currently exists to enable research into the magnitude of these interrelationships.

6. It is difficult to communicate between directorates because:

a. Notwithstanding uniformity and standardization requirements, the various computer systems do not interface with each other in terms of providing an audit trail of FMS requirements.

b. There is a semantics problem, as described above, which complicates any communication that does transpire between the directorates.

E. SECOND COMMAND DATA BASE.

At this command, meetings were held and requests were made to the Directorates of P&P, Comptroller, and Management Information Systems to provide the same type of data that was requested of the first command. Since this command did not have the same bridging system as the first command, it was unable to provide any data in the form of FMS cases and associated contracts. However, discussions with representatives of the various directorates disclosed that lines of communication have been established between the directorates because of their implementation of a "Case Tracking System." Since the tracking system is one of the few recorded attempts to address the problems to which this study is directed, it will be discussed briefly here. Moreover, it was useful in helping to formulate a systems approach to the FMS problem.

The Case Tracking System is designed to provide a sophisticated method of management control and surveillance over:

1. Case Planning
2. Case Acceptance
3. Financial Flow
 - a. Commitments
 - b. Obligations
 - c. Disbursements
4. Schedule of Payments
5. Progress Payments to Contractor
6. Forecast of Obligations
7. Deliveries
8. Billing
9. Case Close Out

The Case Tracking System is based on a principle whereby the major end item is broken down into the major subsystems. Subsystems, such as installed avionics, which are provided by other commands are tracked down as a separate element within the system. This system affords several advantages to the country case manager in that it tracks supporting work performed by other MRC's, provides financial and delivery information, and provides a fixed audit track. The Case Tracking System does not, however, provide a data base for analysis of the impact of delayed pricing on case close out, nor is it useful in determining the extent of interrelationship between FMS cases and contracts. It is not possible to determine from the system the percentage of a total contract that a given FMS requirement represents.

The Case Tracking System accomplishes what it was designed to do; however, it has not been implemented outside of this command, and a systems approach to FMS management requires additional data which the case tracking is not designed to provide.

F. A SYSTEMS APPROACH.

Analysis of the actual cases as well as discussions with key personnel throughout the commands strongly suggest that the FMS case closure problem cannot be attributed to a single factor such as pricing delay. Instead, functional systems interaction, information breakdowns, and the need to consolidate acquisitions to reduce unit prices create a diffuse atmosphere in which it is difficult to carry out responsibilities for the processing of FMS actions. A systems approach to include the monitoring of procurement actions and status is required to enhance the communication between the IL, Comptroller and P&P directorates and facilitate case monitorship and closure processing.

1. Figure 1 is a conceptual matrix designed to exemplify the interrelationships between contracts and FMS cases through the use of an example. The current lack of interface between the various MIS precludes the country case manager from knowing that this case is but one of 73 cases tied into contract. . .70-C-0279; also the P&P Directorate is currently unable to quickly determine that 18 separate contracts are supporting case ISVSH. This is only an example, yet there is no current capability for a case manager to query a computer system to obtain data on the contracts supporting a particular FMS case; and P&P is unable to quickly respond to requests for status of contractual actions supporting a particular FMS case.

A case manager may be aware of the funding on his case, yet he is unaware of what percentage of a contract his FMS portion represents. He also may be aware of the delivery requirements on his portion of the contract, yet he is unaware of the delivery terms of the balance of that contract. Since the case manager might be unaware of the type of contract supporting his FMS case, he will not know that actual prices could be dependent on circumstances not directly related to his portion of the contract.

2. All of the data needed to remedy the problems and circumstances discussed in paragraph a. above is currently located within the APARS, CCSS, and Military Standard Contract Administration Procedures (MILSCAP) systems; however, there is no common link between the systems on FMS actions and, therefore, there is no audit trail. A special code for FMS, when developed, will enable the flow of data between these systems, and provide a data base which could be queried by SA, P&P, Materiel Management, and the Comptroller. With the presence of the following data, any type of information needed could be extracted from the system on demand:

- (a) Country-case Designation
- (b) MILSTRIP-National Stock Number (NSN)
- (c) MILSTRIP-Document Number
- (d) Procurement Number (PRON)
- (e) Contract Number/Order Number
- (f) Contract Type
- (g) Total Quantity on Order
- (h) FMS Delivery Date by Case Number

- (i) Final Delivery Date of the Basic Contract
- (j) Contract Closure Condition
- (k) Procurement Element
- (l) Total Contract Obligated Amount
- (m) FMS Obligated Amount by Case Number
- (n) Final Payment Date
- (o) Date of Actual Final Delivery
- (p) Reason Code for Overage Condition

3. Under a systems management approach to FMS management, a case manager should be able to query the computer system for a printout which would be as comprehensive as he needed. Such a printout might be no more than a listing of the contract numbers of contracts supporting his case, or it might be a detailed analysis of delivery, funding, and closing status for every action in P&P which is supporting that particular case. P&P, in turn, should be able to query the system to obtain any level of desired status of FMS cases related to a particular contract.

4. While the matrix in Figure 1 is no more than a conceptual tool, the data available under a systems approach would obviously enhance the monitoring of procurement actions, communication between directorates, facilitate case monitorships, and provide the information necessary to process FMS case closure in a much more organized and timely manner.

FIGURE 1
FMS CASE/CONTRACT MATRIX

Case Number Contract Number	G Y V D X	I R U P V	N E U T G	G Y V A N	. . .	I S V S H
71-C-0345	X	X	X	X		
72-C-0491	X	X	X			
72-C-0418	X	X	X			
70-C-0279	X	X	X		. . . (69) . . .	X
72-C-1157		X				
71-C-0329		X				X
. . .						: (15) :
74-C-0755						X

CHAPTER IV

NAVY APPROACH TO FMS CASE CLOSURES

While the scope of this effort did not permit a DOD wide analysis of FMS management, an opportunity to visit one of the Naval commands provided information which corroborates the earlier finding that FMS problems cannot be attributed to any single factor. The Navy has generated very little written policy on FMS case closure because they have found each case to be unique and a standard format or checklist appears to be of little value. Actual written documentation on FMS case closure processes does not exist. In lieu of a systems approach to closing FMS cases, the Navy is currently closing individual FMS cases one at a time using contractor personnel to perform the manual gathering of all documentation and ultimate closeout processing. Interviews with Naval and civilian personnel disclosed the following observations:

1. The personnel actually closing FMS cases for the Navy stated that less than 10% of delayed FMS case closure is caused by contract related problems. They noted that FMS cases are not held open when only a price adjustment remains as a final action to be taken.

2. Acquisition managers place all of the emphasis on satisfying the requirements of the FMS case, and almost no effort on closing the case. They suggested that closeout procedures should be considered from the outset of an FMS case, and at the physical completion of the contracts the closing effort should be continued not begun.

3. The Navy has a catalog of FMS cases that are currently open.

The idea is to eventually have a comprehensive reference book which will give supply status and all pertinent information on the individual FMS cases.

4. There is no uniformity in the processing of FMS paperwork, and lost or misrouted bills appear to be the rule rather than the exception. When a bill cannot be matched it is placed in an exception file and appears to die there since no routine action is taken to clear up old documentation.

5. Accounting and billing are problems because the supplier gets paid and the foreign country is billed, but the funds accounting frequently does not catch up.

CHAPTER V

INTERNATIONAL LOGISTICS DATA BASE

A. INTRODUCTION.

The purpose of this chapter is to give an overview of the current International Logistics Data Base interface as a part of CCSS developed by ALMSA.

B. ALMSA VISIT BY APRO PERSONNEL.

As a part of this research study, APRO personnel visited ALMSA and briefed them on the research efforts into closing FMS cases in a more timely manner. The main parts of the discussion concerned the proposed systems approach to FMS management. The main part of APRO's prepared systems approach to FMS case management is being able to interrelate through a conceptual matrix the FMS cases to procurement contracts and vice-versa. This approach was discussed in some detail in Chapter III, paragraph F.

The ALMSA personnel agreed that the proposed systems matrix approach had great value; however, the current CCSS is not properly organized to, nor contains, all of the necessary data needed to implement the proposed approach to FMS case management which should result in FMS cases being closed in a more timely manner.

C. RESULTS OF ALMSA DISCUSSIONS.

As a result of APRO's visit to ALMSA, two Systems Change Requests (SCRs) were developed by APRO personnel in conjunction with DARCOM Security

Assistance Personnel. Draft copies of these SCRs are contained in Appendix A. They have been assigned numbers and are currently being processed; when complete should yield management information to implement APRO's proposed systems approach to FMS case management.

CHAPTER VI

CONCLUSIONS

A. INTRODUCTION.

It is recognized that the number of MRC's visited was limited; however, the information collected and analyzed provides a definite trend that a system wide problem exists and that additional data could not be obtained in a cost effective manner. Due to the lack of a current FMS data base the immediate overall objective of the study proposal was not completely attained; however, during the course of APRO's study on FMS case closure, additional relevant information related to FMS case closures in general was obtained. This information will be addressed in this chapter as conclusions based on findings already mentioned earlier in the report.

B. PRICING.

Although only two MRC's were visited and APRO personnel were able to analyze only a limited amount of data at one MRC, it was found that not one case closing was delayed due to pricing alone. This seemed to substantiate the findings at the Navy where the personnel interviewed indicated that their FMS cases are not held open when only a price adjustment remains as a final action to be taken.

Based on a very limited sample, it seems that pricing does not have a major impact in causing delays in FMS case closures; however, because of the lack of an adequate data base it cannot be categorically stated that pricing is not causing FMS case closure delays.

C. SEMANTICS PROBLEM.

One of the problems uncovered during the course of the study was the fact that terminology used in FMS matters by Security Assistance, Materiel Management, Comptroller and P&P personnel is not uniform. This aspect was covered in Chapter III, paragraph D.1. where actual examples were given concerning this semantics problem.

D. SYSTEMS APPROACH.

It was concluded by the APRO researchers, based on their overall review of the FMS case closure problem, that there is currently a lack of a systems approach to FMS case management and FMS case closure in particular. This conclusion was reinforced by data from one MRC which indicated that:

1. Some country case managers were not aware that FMS contracts had been completed and closed for up to two years, yet the FMS cases were still open.

2. Other country case managers who knew that their FMS portion of a contract was delivered, asked for actual prices while the balance of the other than non-FFP contract may not be completed for some time.

3. Country case managers were generally unaware of what percentage their case represented as a portion of the total procurement contract in terms of total dollars or deliverable items.

4. Country case managers were generally unaware of the status of procurement under their FMS cases; e.g., delivery could take place and yet the country case manager would not be notified for up to several months so that he could take action to bill the foreign customer. There is a lack of communication between the various directorates of the MRC's associated

with FMS.

It was concluded by the researchers that many of the associated FMS problems discussed in this report are being caused by the lack of interface of management information systems utilized in the FMS arena. A systems approach at the time is not possible due to the lack of interface between the MIS of Comptroller, IL and P&P as a part of APARS, CCSS and MILSCAP.

CHAPTER VII

RECOMMENDATIONS

A. SYSTEM APPROACH.

Contrary to the original hypothesis, most of the FMS case closure problems found were caused not by pricing alone but by the lack of a systems management approach. Therefore, the most urgent action required at this time is the implementation of the SCRs contained in Appendix A of the report. For this approach to be successful, HQ DARCOM Security Assistance Personnel must follow through to see that the SCRs are actually implemented in a timely manner.

Upon subsequent implementation of the SCRs, personnel of the various directorates mentioned in this report must be educated concerning the usage of the data to facilitate communication between the directorates. The benefits of this system would be the availability of timely data upon which the (1) country case manager could base his decisions for better management of his FMS cases; (2) procurement personnel could gauge the FMS impact on total procurement actions within the command, and (3) Comptroller could monitor funding of contracted FMS requirements within a systems approach.

B. EDUCATION OF SECURITY ASSISTANCE PERSONNEL.

Findings indicated that the contract closing status was not utilized by the country case manager. Education in regard to the closing procedures and allowances in ASPS No. 2 must be afforded to security assistance personnel so that they will be able to anticipate actual prices when they know

the nature of the contract type involved in their case. The data provided by the SCRs will be useless if the security assistance personnel continue to take no closing actions when the contracts are closed solely because of their ignorance with regard to the procurement closing process, or they attempt to close an FMS case prematurely when the contracts involved are other than FFP and in an open condition. Security assistance personnel must be made aware of the different types of contracts in use and the basis for obtaining actual cost or estimated cost depending on the variety of contract type. This education will greatly diminish the semantics problems currently being encountered.

C. RECOMMENDATIONS FOR FUTURE RESEARCH.

There are no recommendations on pricing per se; however, upon implementation of the recommended SCRs as a part of our systems management approach, additional research on a wider sample should be conducted in order to ascertain the extent of pricing and other potential functional delays and their impact on FMS case closures.

APPENDIX A
SYSTEM CHANGE REQUESTS

SYSTEMS CHANGE REQUEST TRANSMITTAL ACTION

(AMC/DARCOM-R 18-17)

1. SCR NO:

XILZZC822601

2. DATE PREPARED:

21 August 1978

3. SUSPENSE DATE:

4. TO:

- ☐ User SCCO _____
- ☐ CSDA SCCO _____
- ☒ AMC SCCO DRCMS-EI
- ☐ Other _____

For use by SCCO's only, unless used for internal coordination:

- ☐ Functional element _____
- ☐ ADP Design element _____
- ☐ SCR Originator _____

5. ACTION:

- ☐ For analysis and response to _____ with copy to _____.
- ☐ SCR returned without action, as incomplete.
- ☐ See comment below.
- ☒ Forwarded for approval/disapproval.
- ☐ Not within submitter's approving authority.
- ☐ Recommend approval. ☐ Recommend disapproval.
- ☐ SCR received by _____.
- ☐ Functional review will be completed _____.
- ☐ Technical review will be completed _____.
- ☐ Approved. Target date for implementation is _____. Priority is _____.
- ☐ Disapproved. See reasons below, or attached.
- ☐ Other: _____.

6. COMMENT:

7. ACTION OFFICER: (Title, Orgn, Cmd & Tel Ext)

Antonio J. D'Ambrosio
DRSAC-SC 49744/5

8. ACTION OFFICER SIGNATURE:

Antonio J. D'Ambrosio

9. ATTACHMENTS:

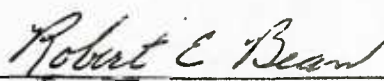
10. APPROVING OFFICIAL SIGNATURE:

11. COPY FURNISHED:

12. TITLE, ORGN, CMD & TEL NO:

SYSTEM CHANGE REQUEST WITH USER IMPACT/BENEFIT
(AMC/DARCOM-R 18-17)

1. SCR NUMBER:
X1LZZC822601

2. TO: USADARCOM AIMS ATTN: DRXAL-FAB St Louis, MO 63188		3. FROM: USA SECURITY ASSISTANCE CENTER DRSAC-MS Alexandria, VA 22333										
4. CLASSIFICATION OF CHANGE: <input type="checkbox"/> EMERGENCY <input type="checkbox"/> URGENT <input checked="" type="checkbox"/> ENHANCEMENT <input checked="" type="checkbox"/> PRIORITY <input type="checkbox"/> DIRECTED CHANGE <input type="checkbox"/> ROUTINE <input type="checkbox"/> NEW/ADD-ON SYSTEM		5. SYSTEM IDENTIFICATION: 										
6. DATE & TIME OF INCIDENT: (Emergency & Urgent only)		7. SCR INITIATOR: (Name & tel no.) AV 284-9734 Antonio J Dambrosio										
8. SHORT TITLE: (50 characters maximum) FMS Country/Case-Procurement Data Requirements		9. TYPE OF CHANGE: <input checked="" type="checkbox"/> FUNCTIONAL <input type="checkbox"/> MAJOR <input type="checkbox"/> TECHNICAL <input type="checkbox"/> MINOR										
10. NARRATIVE: (Description of problem, enhancement, other proposed change, or new/add-on system. Describe completely. Use bond paper to continue, if required, annotating SCR number at the top.) 1. There is an immediate need to develop a capability to extract procurement contract data on FMS cases. This data is essential to determine the status of procurement deliveries scheduled to meet the FMS customer required delivery dates (RDD). The data required includes DARCOM/Non-DARCOM procurement data maintained in MILSCAP Master File (MMF). 2. These data elements are required to effect timely case closure: Country-Case Designation MILSTRIP-National Stock Number (NSN) MILSTRIP-Document Number Procurement Number (PRON) Contract Number/Order Number Contract Type Quantity FMS Delivery Date Final Schedule Date Contract Closure Condition Procurement Element Total Amount Contract Case Contract Amount Final Schedule Date Date Final Payment Date Contract Completed Reason Delay Closure												
11. INITIATING ELEMENT APPROVAL												
TYPED NAME, ORGN SYM & TEL NO. OF APPR OFFICIAL: ROBERT E. BEAN Deputy Director 48383 Security Assistance		SIGNATURE: 										
DATE: 21 AUG 1976												
12. ATTACHMENTS												
<table style="width:100%;"> <tr> <td><input type="checkbox"/> MAPS</td> <td><input type="checkbox"/> CONSOLE SHEETS</td> <td><input type="checkbox"/> PUNCH CARDS I/O</td> </tr> <tr> <td><input type="checkbox"/> CORE OUMP</td> <td><input type="checkbox"/> OUTPUT LISTINGS</td> <td><input type="checkbox"/> OTHER: _____</td> </tr> <tr> <td><input type="checkbox"/> FILE PRINTOUTS</td> <td><input type="checkbox"/> JOB STREAM SEQUENCE</td> <td><input type="checkbox"/> OTHER: _____</td> </tr> </table>				<input type="checkbox"/> MAPS	<input type="checkbox"/> CONSOLE SHEETS	<input type="checkbox"/> PUNCH CARDS I/O	<input type="checkbox"/> CORE OUMP	<input type="checkbox"/> OUTPUT LISTINGS	<input type="checkbox"/> OTHER: _____	<input type="checkbox"/> FILE PRINTOUTS	<input type="checkbox"/> JOB STREAM SEQUENCE	<input type="checkbox"/> OTHER: _____
<input type="checkbox"/> MAPS	<input type="checkbox"/> CONSOLE SHEETS	<input type="checkbox"/> PUNCH CARDS I/O										
<input type="checkbox"/> CORE OUMP	<input type="checkbox"/> OUTPUT LISTINGS	<input type="checkbox"/> OTHER: _____										
<input type="checkbox"/> FILE PRINTOUTS	<input type="checkbox"/> JOB STREAM SEQUENCE	<input type="checkbox"/> OTHER: _____										
13. COPY FURNISHED: (Orgn symbol) 		14. SYSTEM CHANGE CONTROL OFFICER: (Signature) 										
15. TYPED NAME, ORGN SYMBOL & TEL NO: 		16. DATE: 										

SUB-SUBJECT: FMS Country/Case-Procurement Data Requirements

3. Directorates, security assistance, and procurement will be able to obtain this data through extract reports from the MMF file. Reports will be extracted based on new DIC. A special code (such as all 9s in case and country) will indicate that a report of all country and case codes is desired. A field for office symbol may be useful to route the reports. Provision will also be made for a report by PIIN.
4. MILSCAP Master File. Assure that MMF includes FMS country/case designation fields. This data should be initially entered into the MAD File with the FWD and accessed and entered in the MMF with contract line submission.
5. Materiel Acquisition and Delivery (MAD) File. To assure that FMS country/case is available for the MMF and reports, input to the MAD processes will be changed to make the entry of FMS country/case (5-pos. alphanumeric) code mandatory for Army FMS requirements (first position of the document number is 'B'). This data is to be perpetuated to the MAD file for accessing by the MMF process and to the procurement due-in record. In addition, the MAD (NSNMDR Sec 08, seg 01) process should assure that a due-out record exists on the Document Control File (DCF) prior to posting Army FMS requirements to the MAD file.

USER IMPACT STATEMENT (UIS)	17. SCR NUMBER:	18. DATE UIS PREPARED:
------------------------------------	-----------------	------------------------

19. NARRATIVE DESCRIPTION OF MISSION IMPACT OR BENEFIT: (This block is completed for all classifications. No other blocks need be completed for URGENT SCR's. Do not repeat information furnished in block 10 of this form. Describe actual adverse impact of deficiencies upon mission accomplishment or anticipated mission benefit for other changes.)

Purpose: These SCR's are required to minimize AAA and GAO reports addressing the Army's inability to provide final prices on FMS cases in an effective and timely manner to effect FMS case closure. A proper interface of CCSS must be developed to provide DARCOM the Security Assistance procurement contract data related to FMS cases by country and case. Currently, this void does not provide SA with a ready access for ascertaining the true status of FMS case contracts. As result closure actions becomes most difficult when such data is not available to validate. These SCR's submitted should be approved and expeditious action taken for implementations.

20. USER COST - DEFICIENCY: (This block is completed for PRIORITY or ROUTINE classifications only. Enter time & cost of working around the problem by bridging, manual processing, correction of system output, etc. Include period of time circumvention effort can be sustained.)

	MANHOURS/TIME PER MONTH	COST PER MONTH	PERIOD OF TIME	TOTAL HOURS	TOTAL COST
Functional Personnel -----	_____	_____	_____	_____	_____
ADP Personnel -----	_____	_____	_____	_____	_____
Hardware -----	_____	_____	_____	_____	_____
Other: _____	_____	_____	_____	_____	_____
Totals:	_____	_____	_____	_____	_____

* New requirement cost deficiency cannot be determined.

21. USER BENEFIT: (This block is completed for ENHANCEMENTS; and, when measurable, for DIRECTED CHANGES and NEW/ADD-ON SYSTEMS.)

	CURRENT		PROPOSED	
	MANHOURS/TIME PER MONTH	COST PER MONTH	MANHOURS/TIME PER MONTH	COST PER MONTH
Functional Personnel -----	_____	_____	_____	_____
ADP Personnel -----	_____	_____	_____	_____
Hardware -----	_____	_____	_____	_____
Other: _____	_____	_____	_____	_____
Totals:	_____	_____	_____	_____

22. GROSS BENEFIT: (Complete this block when block 21 is used.)

$$\begin{array}{rclclcl}
 \$ & & \$ & & & & \\
 \text{CURRENT COST PER MONTH} & - & \text{PROPOSED COST PER MONTH} & \times & \text{NO. USERS} & \times & 12 = \\
 & & & & & & \text{1ST YEAR GROSS SYSTEM BENEFIT}
 \end{array}$$

A-5

(Note: Use \$10.00 per manhour & \$200.00 per computer hour for blocks 20, 21, & 22.)

SYSTEMS CHANGE REQUEST TRANSMITTAL ACTION

(AMC/DARCOM-R 18-17)

1. SCR NO: <div style="text-align: center;">XILZZC822602</div>	2. DATE PREPARED: <div style="text-align: center;">21 August 1978</div>	3. SUSPENSE DATE:		
4. TO: <table style="width: 100%;"> <tr> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> User SCCO _____ <input type="checkbox"/> CSDA SCCO _____ <input checked="" type="checkbox"/> AMC SCCO : DRCMS-EI _____ <input type="checkbox"/> Other _____ </td> <td style="width: 50%; vertical-align: top;"> For use by SCCO's only, unless used for internal coordination: <input type="checkbox"/> Functional element _____ <input type="checkbox"/> ADP Design element _____ <input type="checkbox"/> SCR Originator _____ </td> </tr> </table>			<input type="checkbox"/> User SCCO _____ <input type="checkbox"/> CSDA SCCO _____ <input checked="" type="checkbox"/> AMC SCCO : DRCMS-EI _____ <input type="checkbox"/> Other _____	For use by SCCO's only, unless used for internal coordination: <input type="checkbox"/> Functional element _____ <input type="checkbox"/> ADP Design element _____ <input type="checkbox"/> SCR Originator _____
<input type="checkbox"/> User SCCO _____ <input type="checkbox"/> CSDA SCCO _____ <input checked="" type="checkbox"/> AMC SCCO : DRCMS-EI _____ <input type="checkbox"/> Other _____	For use by SCCO's only, unless used for internal coordination: <input type="checkbox"/> Functional element _____ <input type="checkbox"/> ADP Design element _____ <input type="checkbox"/> SCR Originator _____			
5. ACTION: <table style="width: 100%;"> <tr> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> For analysis and response to _____ with copy to _____ <input type="checkbox"/> SCR returned without action, as incomplete. <input type="checkbox"/> See comment below. <input checked="" type="checkbox"/> Forwarded for approval/disapproval. <div style="margin-left: 20px;"> <input type="checkbox"/> Not within submitter's approving authority. <input type="checkbox"/> Recommend approval. <input type="checkbox"/> Recommend disapproval. </div> <input type="checkbox"/> SCR received by _____ <div style="margin-left: 20px;"> <input type="checkbox"/> Functional review will be completed _____ <input type="checkbox"/> Technical review will be completed _____ </div> <input type="checkbox"/> Approved. Target date for implementation is _____. Priority is _____. <input type="checkbox"/> Disapproved. See reasons below, or attached. <input type="checkbox"/> Other: _____ </td> <td style="width: 50%;"></td> </tr> </table>			<input type="checkbox"/> For analysis and response to _____ with copy to _____ <input type="checkbox"/> SCR returned without action, as incomplete. <input type="checkbox"/> See comment below. <input checked="" type="checkbox"/> Forwarded for approval/disapproval. <div style="margin-left: 20px;"> <input type="checkbox"/> Not within submitter's approving authority. <input type="checkbox"/> Recommend approval. <input type="checkbox"/> Recommend disapproval. </div> <input type="checkbox"/> SCR received by _____ <div style="margin-left: 20px;"> <input type="checkbox"/> Functional review will be completed _____ <input type="checkbox"/> Technical review will be completed _____ </div> <input type="checkbox"/> Approved. Target date for implementation is _____. Priority is _____. <input type="checkbox"/> Disapproved. See reasons below, or attached. <input type="checkbox"/> Other: _____	
<input type="checkbox"/> For analysis and response to _____ with copy to _____ <input type="checkbox"/> SCR returned without action, as incomplete. <input type="checkbox"/> See comment below. <input checked="" type="checkbox"/> Forwarded for approval/disapproval. <div style="margin-left: 20px;"> <input type="checkbox"/> Not within submitter's approving authority. <input type="checkbox"/> Recommend approval. <input type="checkbox"/> Recommend disapproval. </div> <input type="checkbox"/> SCR received by _____ <div style="margin-left: 20px;"> <input type="checkbox"/> Functional review will be completed _____ <input type="checkbox"/> Technical review will be completed _____ </div> <input type="checkbox"/> Approved. Target date for implementation is _____. Priority is _____. <input type="checkbox"/> Disapproved. See reasons below, or attached. <input type="checkbox"/> Other: _____				
6. COMMENT:				
7. ACTION OFFICER: (Title, Orgn, Cmd & Tel Ext) Antonio J. D'Ambrosio DRSAC-SC -49734/5	8. ACTION OFFICER SIGNATURE: 			
9. ATTACHMENTS:	10. APPROVING OFFICIAL SIGNATURE: 			
11. COPY FURNISHED:	12. TITLE, ORGN, CMD & TEL NO:			

14. SCHNITTSTÜCK.

X1LZZC822602

3. FROM: USA SECURITY ASSISTANCE CENTER
DRSAC-MS
Alexandria VA 22333

☐ EMERGENCY

5. SYSTEM IDENTIFICATION:

6. DATE & TIME OF INCIDENT
(Emergency & Urgent only)

7. SCR INITIATOR: (Name & tel no.)
ANTONIO J. DAMBROSIO
AV 284-9734

8. SHORT TITLE: (50 characters maximum)

Special Processing Requirements

9. TYPE OF CHANGE:

☒ FUNCTIONAL ☐ MAJOR
☐ TECHNICAL ☐ MINOR

10. NARRATIVE: (Description of problem, enhancement, other proposed change, or new/add-on system. Describe completely. Use bond paper to continue, if required, annotating SCR number at the top.)

1. Review all B document numbers with BP/BV edit action code in the document control file to obtain the country/case. Update MAD and MMF with country/case so obtained.

2. After above updates do an MMF scan to identify and print "B" documents that do not have country/case. If necessary, screen back to USASAC-N when a matching "B" document can not be located at the MRCs.

11.	INITIATING ELEMENT APPROVAL
-----	-----------------------------

SIGNATURE:

Robert E. Bean

DATE: _____

6 Apr 78

12. ATTACHMENTS

<input type="checkbox"/> MAPS	<input type="checkbox"/> CONSOLE SHEETS	<input type="checkbox"/> PUNCH CARDS I/O
<input type="checkbox"/> CORE OUMP	<input type="checkbox"/> OUTPUT LISTINGS	<input type="checkbox"/> OTHER: _____
<input type="checkbox"/> FILE PRINTOUTS	<input type="checkbox"/> JOB STREAM SEQUENCE	<input type="checkbox"/> OTHER: _____

13. COPY FURNISHED: (Orgn symbol)

14. SYSTEM CHANGE CONTROL OFFICER: (Signature)

15. TYPED NAME, ORGN SYMBOL & TEL NO:

16. DATE _____

USER IMPACT STATEMENT (UIS)

17. SCR NUMBER:

18. DATE UIS PREPARED:

19. NARRATIVE DESCRIPTION OF MISSION IMPACT OR BENEFIT: (This block is completed for all classifications. No other blocks need be completed for URGENT SCR's. Do not repeat information furnished in block 10 of this form. Describe actual adverse impact of deficiencies upon mission accomplishments or anticipated mission benefit for other changes.)

Purpose: These SCR's are required to minimize AAA and GAO reports addressing the Army's inability to provide final prices on FMS cases in an effective and timely manner to effect FMS case closure. A proper interface of CCSS must be developed to provide DARCOM the Security Assistance procurement contract data related to FMS cases by country and case. Currently, this void does not provide SA with a ready access for ascertaining the true status of FMS case contracts. As result closure actions becomes most difficult when such data is not available to validate. These SCR's submitted should be approved and expeditious action taken for implementations.

20. USER COST - DEFICIENCY: (This block is completed for PRIORITY or ROUTINE classifications only. Enter time & cost of working around the problem by bridging, manual processing, correction of system output, etc. Include period of time circumvention effort can be sustained.)

	MANHOURS/TIME PER MONTH	COST PER MONTH	PERIOD OF TIME	TOTAL HOURS	TOTAL COST
Functional Personnel -----					
ADP Personnel -----					
Hardware -----					
Other: -----					
Totals:					

* New requirement cost deficiency cannot be determined.

21. USER BENEFIT: (This block is completed for ENHANCEMENTS; and, when measurable, for DIRECTED CHANGES and NEW/ADD-ON SYSTEMS.)

	CURRENT		PROPOSED	
	MANHOURS/TIME PER MONTH	COST PER MONTH	MANHOURS/TIME PER MONTH	COST PER MONTH
Functional Personnel -----				
ADP Personnel -----				
Hardware -----				
Other: -----				
Totals:				

22. GROSS BENEFIT: (Complete this block when block 21 is used.)

$$\frac{\$}{\text{CURRENT COST PER MONTH}} - \frac{\$}{\text{PROPOSED COST PER MONTH}} \times \text{NO. USERS} \times 12 = \text{1ST YEAR GROSS SYSTEM BENEFIT}$$

A-8

(Note: Use \$10.00 per manhour & \$200.00 per computer hour for Blocks 21, 22, & 23.)

APPENDIX B

TYPES OF CONTRACTS SUMMARY

1. FIXED PRICE CONTRACTS.

Fixed price type contracts provide for a firm price, or under appropriate circumstances may provide for an adjustable price, for the supplies and services which are being procured. In providing for an adjustable price, the contract may fix a ceiling price or a target price. Unless otherwise provided in the contract, any such ceiling or target price is subject to adjustment only if required by the operation of any contract clause which provides for equitable adjustment, economic price adjustment, or other revision of the contract price upon the occurrence of an event or a contingency.

Since the firm fixed price contract is the only type of contract which does not provide for adjustment of price due to performance or contingencies, it is generally the only type of contract which provides actual prices for FMS case closure at any time such closure action is initiated. Actual prices under any other type of contract are not assured until all repricing actions or cost allocations are made.

a. Firm Fixed-Price (FFP). The firm fixed-price contract provides for a price which is not subject to any adjustment by reason of the cost experience of the contractor in the performance of the contract. This type of contract is suitable for use when reasonably definite design or performance specifications are available, and whenever fair and reasonable prices can be established at the outset. Since the price is fixed, actual prices are available for closure at any point in time.

b. Fixed Price With Economic Price Adjustment (FPEPA). This contract provides for a price which is subject to upward or downward revision upon the occurrence of certain contingencies which are specifically defined in the contract. Adjustments are designed to protect the Government and the contractor against significant economic fluctuations in labor or material prices. Actual prices will not be available for closure of FMS cases until all price adjustments are completed.

c. Fixed-Price Incentive (FPI). This type of contract is appropriate for use when the firm fixed-price contract is inappropriate, and the supplies or services being procured are of such a nature that assumption of a degree of cost responsibility by the contractor is likely to provide him with a positive profit incentive for effective cost control and contract performance. A target price and a ceiling price are negotiated at the outset. Upon completion of performance, a final contract price is negotiated at or below the ceiling price based upon the contractors control of costs. Actual prices will not be available for closure of FMS cases until the final price is negotiated and the contract is modified to reflect the actual final price.

2. COST TYPE CONTRACTS

Cost-reimbursement type contracts provide for payment to the contractor of allowable costs incurred in the performance of the contract to the extent prescribed in the contract. These types of contracts provide an estimate of total cost for the purpose of (1) obligation of funds, and (2) establishment of a ceiling which the contractor may not exceed (except at his own risk) without prior approval or subsequent ratification of the contracting officer.

Due to the use of estimated costs, and the length of time required to establish indirect cost allocation, actual prices are unavailable for FMS case closure action for extended time periods (up to 20 calendar months after physical completion of the entire contract). Cost type contracts are used when the risks involved preclude utilization of fixed prices.

a. Cost-Plus-Fixed-Fee (CPFF). This type contract provides for payment of allowable cost and a fixed fee. The fixed fee, once negotiated, does not vary with actual costs, but may be adjusted as a result of any subsequent changes in the work or services to be performed under the contract.

b. Cost-Plus-Incentive-Fee (CPIF). This type contract provides for payment of allowable costs and a fee which is adjusted by formula in accordance with the relationship which total allowable costs bear to target cost. Under this contract there is negotiated initially a target cost, a target fee, a minimum and maximum fee, and a fee adjustment formula. The formula provides, within limits, for increases in fee above target fee when total allowable costs are less than target costs, and decreases in fee below target fee when total costs exceed target cost.

c. Cost-Plus-Award-Fee (CPAF). This contract also provides for payment of allowable costs, and a fee. The fee in this contract consists of two parts: (1) a base fee which is fixed and does not vary with performance; and (2) an award fee sufficient to provide motivation for excellence in contract performance in areas such as quality, timeliness, ingenuity, and cost effectiveness. The amount of award fee to be paid is based upon a subjective evaluation by the Government of the quality of the contractor's performance in the light of criteria set forth in the contract.

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UNCLASSIFIED

Security Classification

DOCUMENT CONTROL DATA - R & D

(Security classification of title, body of abstract and indexing annotation must be entered when the overall report is classified)

1. ORIGINATING ACTIVITY (Corporate author)

US Army Procurement Research Office, USALMC
Fort Lee, VA 23801

2a. REPORT SECURITY CLASSIFICATION

UNCLASSIFIED

2b. GROUP

3. REPORT TITLE

Contract Pricing Impact on Foreign Military Sales Case Closures

4. DESCRIPTIVE NOTES (Type of report and inclusive dates)

Final Report

5. AUTHOR(S) (First name, middle initial, last name)

Wayne V. Zabel
Kimrey D. Newlin

6. REPORT DATE

February 1979

7a. TOTAL NO. OF PAGES

50

7b. NO. OF REFS

17

8a. CONTRACT OR GRANT NO.

8b. PROJECT NO.

c.

d.

9a. ORIGINATOR'S REPORT NUMBER(S)

APRO 805

9b. OTHER REPORT NO(S) (Any other numbers that may be assigned this report)

10. DISTRIBUTION STATEMENT

Distribution of this document is unlimited

11. SUPPLEMENTARY NOTES

12. SPONSORING MILITARY ACTIVITY

US Army Security Assistance Center
ATTN: DRSAC-MS, 5001 Eisenhower Ave
Alexandria, VA 22333

13. ABSTRACT Experience of Foreign Military Sales (FMS) managers indicates that many FMS cases are retained in an open status because of delays in negotiation of final contract prices. The objective of this study was to develop procedures and policies which will reduce to acceptable levels the number of FMS case closures being delayed due to lack of finalized prices. (U). STUDY APPROACH. The approach then was to determine the number, age, and value of contracts delaying closure of FMS cases; upon determination of reasons for delay in final price negotiation, identify opportunities for reducing the delays which are within the procuring activities' ability to exploit. (U). SUMMARY AND CONCLUSIONS. A satisfactory data base does not currently exist to enable a reliable finding of the impact of pricing delay in FMS case closures. A lack of interface between computer systems, as well as semantics problems, cause a lack of communication and precludes a system approach to FMS case management and closure in particular. System change requests (SCR's) have been developed to provide an interface between computer systems and provide for a basis of a systematic approach to management and closure of FMS cases. Upon implementation of the SCR's, a data base will become available which will allow analysis of the impact of pricing and other potential functional delays on FMS case closures.

14. KEY WORDS	LINK A		LINK B		LINK C	
	ROLE	WT	ROLE	WT	ROLE	WT
Contract Pricing (FMS)						
FMS Case Closure						
Estimated Prices						

R



58338